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State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

WESTERN MONTANA COLLEGE
of the University of Montana

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1988

This report contains recommendations for improvement of the college's operations, including recommendations relating to:

- WMC Foundation
- Compliance with State Accounting Policy
- Improving Accounts Receivable Procedures
- 1966 Revenue Bond Indenture

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March 1989

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on Western Montana College's financial activity for fiscal years 1986-87 and 1987-88. This report includes recommendations concerning the WMC Foundation, compliance with state accounting policy, improving accounts receivable procedures, and the 1966 Revenue Bond Indenture. The college's written response to the audit recommendations is included in the back of the report.

We thank Western Montana College officials and their staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

WESTERN MONTANA COLLEGE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1988

Members of audit staff involved in this audit were: Paul Christofferson, Chuck Jensen, Wayne Kedish, Jim Manning, Cindy Susott, and Lisa Warburton.

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APPOINTED AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

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UNIVERSITY OF MONTANA

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WESTERN MONTANA COLLEGE

W. Michael Easton	Provost
Glen Leavitt	Director of Fiscal Affairs
Dennis Holschbach	Controller
Francis Fields	Accountant

SUMMARY OF RECOMMENDATIONS

This report addresses nine recommendations to the college. The listing below serves as a means of summarizing the recommendations contained in the report and the college's reply.

	Page
Recommendation #1 The college:	
A. Enter into a written contract with the Foundation setting forth rights and duties of each party.	4
College Response: Concur. See page 28.	
B. Account for donations to the college in the appropriate state funds.	4
College Response: Concur. See page 28.	
Recommendation #2 The college continue to address the operating fund deficit for the 1966 Revenue Bond.	5
College Response: Concur. See page 28.	
Recommendation #3 The college:	
A. Develop procedures to ensure the contingent revolving fund stays within the authorized limit.	6
College Response: Concur. See page 29.	
B. Remit interest earned on the contingent revolving fund to the General Fund.	7
College Response: Concur. See page 29.	
C. Record all contingent revolving fund interest earnings as revenue and all service charges as expenditures on the state's accounting system.	7
College Response: Concur. See page 29.	
D. Use the contingent revolving fund only for authorized purposes.	7
College Response: Concur. See page 29.	

SUMMARY OF RECOMMENDATIONS
(continued)

Page

Recommendation #4
The college develop personal service contracts that contain the elements required by state policy. 7

College Response: Concur. See page 30.

Recommendation #5
The college:

A. Obtain signed documentation from student applicants that previous financial aid obligations have been met. 8

College Response: Concur. See page 30.

B. Obtain and include all required documents in financial aid files. 8

College Response: Concur. See page 30.

Recommendation #6
The college:

A. Establish procedures to determine the collectibility of loans and accounts receivable. 10

College Response: Concur. See page 30.

B. Periodically adjust the allowance for uncollectible accounts on its accounting records. 10

College Response: Concur. See page 31.

C. Remove all receivable amounts determined to be uncollectible from the accounting records. 10

College Response: Concur. See page 31.

SUMMARY OF RECOMMENDATIONS
(continued)

	Page
Recommendation #7 The college:	
A. Perform a complete physical inventory of fixed assets.	11
College Response: Concur. See page 31.	
B. Comply with state policy for property accounting and management.	11
College Response: Concur. See page 31.	
C. Complete implementation of its property accounting system.	11
College Response: Concur. See page 32.	
Recommendation #8 The college pay student employees at comparable wage rates for similar work.	12
College Response: Concur. See page 32.	
Recommendation #9 The college develop and implement procedures to segregate duties and document review and approval of transactions recorded on SBAS.	13
College Response: Concur. See page 33.	

INTRODUCTION

We performed a financial-compliance audit of Western Montana College for the two fiscal years ended June 30, 1988. The objectives of our audit were to:

1. Determine the college's compliance with applicable state and federal laws and regulations.

2. Make recommendations for improvement in the management and internal controls of the college.

3. Determine if the college's financial statements present fairly its financial position at June 30, 1988 and the results of its operations for the two fiscal years ended June 30, 1988.

4. Determine the implementation status of prior audit recommendations.

This report contains nine recommendations which address areas where compliance with laws and regulations, management and internal controls, and financial reporting can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the college programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations in this report. Each report section discloses the cost, if significant, of implementing recommendations.

COLLEGE BACKGROUND AND OPERATIONS

Western Montana College was established at Dillon in 1893. Most of the college's buildings are located on the original ten acre campus. The college subsequently purchased property which increased its campus to 34 acres. Western Montana College (WMC) is primarily oriented toward the training and education of elementary and secondary teaching personnel. Initially, the college offered a two-year program in education. Currently, the college offers the following degrees:

- Bachelor of Science degrees in Elementary Education, Secondary Education, Natural Heritage, and Business;
- Bachelor of Arts degree in American Studies;
- Master of Science degree in Education; and
- Associate of Arts and Science degrees.

The Board of Regents of Higher Education supervises and controls the college. The President of the University of Montana appoints a provost, who serves

as the college's chief administrator. A local three-member executive board, which is appointed by the Governor, acts in an advisory capacity to the provost.

On January 9, 1987, the Board of Regents passed a motion "that a plan be developed by the Presidents of the University of Montana and Western Montana College, and the Commissioner of Higher Education, to administratively merge Western Montana College as a four-year branch campus of the University of Montana by July 1, 1988." The motion included the following provisions which affect the college's current operations:

1. The college will continue to offer baccalaureate degrees in teacher education.

2. The college will discontinue its graduate programs and baccalaureate degrees in Business, Natural Heritage, and American Studies effective fall semester of 1990.

3. The college will discontinue its football program at the end of the fall 1987 season.

4. The college, in conjunction with the University of Montana, should develop an emphasis in tourism and recreation, consider offering a two-year associate degree, and implement a two-year transfer program.

5. The college should maintain a strong and visible campus administrator, and the budget should continue to be separately identified within the University System budget.

In January 1988, the Board of Regents reconsidered the decision to discontinue football, and approved reinstatement. In addition, the Board of Regents passed the following motion:

> "Two years after the implementation of the merger plan (1990) a formal review of the merger will be held by the Regents. The affected units are asked to report their progress on the merger on a six month basis to the Board."

The college is financed by state appropriations, university millage, student fees, federal financial assistance, private gifts and grants, land grant income and auxiliary enterprise operations. During spring semester 1988, Western Montana College employed approximately 180 faculty and staff and 272 students. The college reported enrollment of 731 full-time equivalent students during spring semester 1988, as shown on the Schedule of Full-Time Equivalent (FTE) Students for the two fiscal years ended June 30, 1988, on page 26. During the subsequent semester, fall 1988, Western Montana College reported 888 student FTE.

PRIOR AUDIT RECOMMENDATIONS

Our office performed a financial-compliance audit of Western Montana College for the two fiscal years ended June 30, 1986. The report contained ten recommendations still applicable to the college. The college concurred with all recommendations. The college implemented six, partially implemented two, and did not implement two of the recommendations.

Recommendations not fully implemented deal with debt service requirements and the operating fund deficit for the 1966 revenue bond (page four), accounts receivable (page eight) property accounting and control (page ten), and recording financial activity in accordance with state accounting policy which is not included in this report but has been discussed with management.

COMPLIANCE

We reviewed state laws and regulations pertaining to the college. The following report sections discuss compliance issues we noted during our audit.

WMC Foundation

The WMC Foundation is a nonprofit, tax-exempt corporation established to solicit and receive donations to fund various activities at the college. The college and the Foundation are distinct and separate legal entities.

In 1981 the college received $3,000 from a private estate to be used for endowment scholarships. In fiscal year 1986-87 WMC transferred this bequest to the WMC Foundation and removed it from the college's accounting records. Donations made to the college are college assets and should be recorded on the college's accounting records as state assets. As a general rule, if the Foundation is to handle donations, the college and the Foundation should enter into a contract which clearly sets forth rights and duties of both parties. Currently, the college does not have a written contract with the Foundation for administering donations. The college may not donate assets to the Foundation, but may contract with the Foundation to administer selected college assets. The college and Foundation could enter into a broad-based, long-term agreement for the Foundation to carry out certain administrative functions related to donations. For donations which are determined to be college assets, the college could monitor this contract with the Foundation to ensure the funds are spent in accordance with donor restrictions, state laws and

college policies. The college should only transfer the donated assets pursuant to a contractual arrangement whereby the Foundation will administer the funds.

The college should record in the appropriate state fund, revenue for donations received and an advance for amounts disbursed to the Foundation. The college should record expenditures related to each fiscal year in its accounting records based upon reports from the Foundation.

College officials indicated they will recover and record the endowment on the state's accounting records and will prepare an agreement with the Foundation.

RECOMMENDATION #1

We recommend the college:

A. Enter into a written contract with the Foundation setting forth rights and duties of each party.

B. Account for donations to the college in the appropriate state funds.

1966 Revenue Bond

In 1966, the college issued revenue bonds to fund its housing and dining facilities. Revenue in the bond's operating account is pledged to pay principal and interest on the bond which amounted to $54,070 for fiscal year 1987-88. Operations revenue from the housing and dining facilities is not sufficient to pay principal and interest on the bonds. Fund balance is negative in the operating account at both fiscal year ends 1986-87 and 1987-88. A similar problem was noted in our prior audit report and in the revenue bond audits for fiscal years 1986-87 and 1987-88 performed by a public accounting firm.

According to university system officials, the main factor contributing to the deficit fund balance is a decline in student enrollment during fiscal year 1987-88. As noted in our prior audit report, in order to alleviate the problems in the 1966 revenue bond operating account, the Board of Regents authorized the college to:

a) increase building fees;

b) establish a student union use fee; and

c) transfer funds from the 1967 Revenue Bond reserve funds.

As shown in the following schedule, these measures were effective and the operating fund deficit was reduced during fiscal year 1986-87. However, student enrollment dropped during fiscal year 1987-88 and the deficit increased.

Fund Balance: June 30, 1986	$(101,527)
FY 1986-87	
Net Operating Gain	$ 94,784
Transfer In from 1967 Reserves	50,000
Acquisition of Equipment and Fixtures	(19,168)
Transfer Out to 1966 Reserve Account	(58,991)
Prior Yr. Adj.	515
Fund Balance: June 30, 1987	$ (34,387)
FY 1987-88	
Net Operating Loss	$ (70,144)
Transfer In from 1967 Reserves	50,000
Acquisition of Equipment and Fixtures	(19,187)
Transfer Out to 1966 Reserve Account	(51,158)
Prior Year Adj.	5,612
Fund Balance: June 30, 1988	$(119,264)

Source: WMC Bond Audit Reports FY 1986-87 and 1987-88

The college must generate more revenue from housing and dining operations, or transfer money from other sources to eliminate the deficit fund balance in the 1966 Revenue Bond operating account. According to college officials student enrollment has increased during fiscal year 1988-89 to 888 full time equivalent students for fall semester and should help reduce the deficit.

RECOMMENDATION #2

We recommend the college continue to address the operating fund deficit for the 1966 Revenue Bond.

Contingent Revolving Account

On March 19, 1982, the Department of Administration authorized WMC to establish a revolving cash account in the amount of $4,500 to be used for "travel advances, bills which must be prepaid, and short-term loans." We reviewed 24 monthly bank reconciliations for fiscal years 1986-87 and 1987-88. Nine of the twenty-four reconciliations reflected balances which exceeded the $4,500 limit authorized by the Department of Administration. Excess balances for the nine months ranged from $458 to $2,861. Montana Operations Manual, section 2-1950.60,

states moneys may not be deposited in a revolving cash account if the resulting book balance exceeds the authorized balance.

College personnel stated that the authorized limit was exceeded due to the accumulation of interest earned on the money in the account. The college earned $477 in interest on the account during fiscal years 1986-87 and 1987-88. According to college officials the amount of interest earned on the account from its inception through October 1988 was $2,008. This interest was not remitted to the state's General Fund, as required by section 17-6-202, MCA.

The college should determine the amount of service charges the contingent revolving account has incurred, subtract this amount from interest earned on the account, and remit the difference to the state treasurer. The college should also record all interest earned on the contingent revolving fund money as revenue and the service charges incurred as expenditures on the state's accounting records to comply with state accounting policy.

According to college personnel, contingent revolving fund interest has not been deposited in the General Fund because personnel have not had the time to determine the services charges and calculate the proper amount to deposit.

During our review of the bank reconciliations we also detected improper use of the contingent revolving account. In July 1988, a benefit fund was established for a WMC student. Several individuals donating money to the fund wrote their checks to Western Montana College rather than to the benefit fund. The college deposited the checks in the revolving cash account and later withdrew the money in one check payable to the benefit fund. To properly account for the money, WMC should have deposited the checks in a state treasury agency fund and then issued a warrant to the benefit fund. Additionally, WMC deposits student financial aid checks into the contingent revolving account and then gives students a contingent revolving fund check for the difference between their financial aid check and student fees.

State accounting policy allows money to be deposited in a revolving cash account only if the money is to establish, replenish or increase the amount authorized by Department of Administration, Accounting Division. The college should use the contingent revolving fund for authorized purposes only.

RECOMMENDATION #3

We recommend the college:

A. Develop procedures to ensure the contingent revolving fund stays within the authorized limit.

B. **Remit interest earned on the contingent revolving fund to the General Fund.**

C. **Record all contingent revolving fund interest earnings as revenue and all service charges as expenditures on the state's accounting system.**

D. **Use the contingent revolving fund only for authorized purposes.**

Contracted Services

Contracting with individuals or organizations for various professional services is a recognized alternative for accomplishing various requirements of state government. State policy specifies certain requirements be included in a professional personal services contract.

We tested a sample of personal service contracts to determine if the necessary elements were contained in the contracts. The results of our testing indicate the personal services contracts used by WMC are not adequate. None of the seven contracts we tested contained the following requirements:

1. Employment status of the contractual relationship between the college and the private consultant.

2. Certification of compliance with state law concerning workers' compensation coverage.

3. Approval of legal content by agency legal counsel.

We determined that an employer/employee relationship could be construed between the college and the person under contract.

College personnel stated they were not aware of the items that should be included in the contracts. WMC personnel should ensure that minimum contract elements are included in WMC's personal service contacts. Contracts WMC negotiates in the future should be drafted according to requirements specified in state policy.

RECOMMENDATION #4

We recommend the college develop personal service contracts that contain the elements required by state policy.

Documentation of Student Aid

Western Montana College participates in the following federal financial aid programs to benefit its students: Perkins Loans; Pell Grants; Stafford Loans

(formerly Guaranteed Student Loans); College Work-Study (CWS); Supplemental Educational Opportunity Grants (SEOG); and State Student Incentive Grants (SSIG). The college determines eligibility for campus-based programs such as Perkins loans and CWS and processes applications for Pell grants. The following paragraph addresses federal financial aid compliance issues noted during our audit.

According to general compliance requirements in the federal regulations for Student Financial Assistance Programs, (34 CFR 668.7), a grant, loan and/or work-study award may be made only to a student who does not owe a refund on a federal grant and is not in default on a federally-funded or insured student loan. A student must certify that he or she is not in default and does not owe a refund. Another requirement in the federal regulations, (34 CFR 668.14), states that if the institution is disbursing Pell or campus-based funds it must obtain a financial aid transcript if the recipient previously attended another eligible institution and maintain the transcript on file. One student aid file out of 31 tested did not contain the required certification or a financial aid transcript. We were unable to verify this certification and therefore we question the allowability of the student's $915 Pell grant award (CFDA #84.063).

The file indicated the student previously attended two other schools. The file contained one financial aid transcript but college officials overlooked obtaining a transcript from the second school.

RECOMMENDATION #5

We recommend the college:

A. Obtain signed documentation from student applicants that previous financial aid obligations have been met.

B. Obtain and include all required documents in the financial aid files.

ACCOUNTING ISSUES

Accounts Receivable

At June 30, 1988, WMC's balance sheet shows $137,580 of accounts receivable in the current unrestricted fund and $459,647 of student loans receivable in the loan fund. To determine the validity of these receivables and the extent to which the college had implemented our prior audit recommendation regarding accounts receivable we performed the following:

1. Confirmed with the recipient of the loan or verified by other means the reasonableness of 39 out of a sample of 50 Perkins loan balances.

2. Reviewed student loan files to determine the age of the loan and any repayment activity during the current year.

3. Reviewed current unrestricted fund receivables to determine the age of the accounts and current collection status.

The results of our audit tests indicate several problems exist regarding WMC's accounts and loans receivable. The issues discussed below resulted in similar audit recommendations to WMC in the previous two audits. WMC personnel concurred with the recommendations in both of the prior audits, however, the recommendations have not been fully implemented.

Accounts and loans receivable presented on the balance sheet include loans and accounts which are significantly overdue. According to college officials $59,882 of accounts receivable in the Current Unrestricted Fund, are considered uncollectible. Seventy-three percent of short term (60 day) loans in the Loan Fund have been outstanding for at least 120 days. The dates of the loans range from January 1970 to January 1988. Eighteen percent of the short term loans have been determined uncollectible and were turned over to a private collection agency.

College officials analyzed the activity or repayment status of the $94,400 of student receivables in the Current Unrestricted Fund. The following table reflects the results of the analysis.

Inactive Student Receivables

Date of Last Activity	Amount
Various	$ 898
1982	6,684
1983	15,500
1984	11,848
1985	11,949
1986	4,942
1987	8,061
Total	$59,882

Source: Prepared by WMC

College officials stated this was the first analysis of student receivables since the last audit. Based on this analysis, college officials adjusted the financial statements to reflect the $59,882 as the allowance for doubtful accounts.

The significance of the over-due amounts in relation to total receivables indicates that WMC personnel need to take corrective action regarding WMC's accounts receivable system. WMC should establish procedures to periodically age the accounts receivable, determine collectibility of the accounts and write off any

accounts determined to be uncollectible. State policy (Management Memo 2-82-5) provides guidance on how to account for uncollectible amounts.

Neither of the allowance amounts presented on the balance sheet agrees to the allowance amounts recorded on the Statewide Budgeting and Accounting System (SBAS). By not adjusting the allowance, the college indicates to users of information on SBAS that the net receivable amounts are collectible. The results of our audit indicate this may not be true.

RECOMMENDATION #6

We recommend the college:

A. Establish procedures to determine the collectibility of loans and accounts receivable.

B. Periodically adjust the allowance for uncollectible accounts on its accounting records.

C. Remove all receivable amounts determined to be uncollectible from the accounting records.

Property Accounting and Control

State accounting policy requires a system to account for and control property, plant, and equipment. Adequate property control procedures and accounting records are essential for the protection of college property.

In the previous two audit reports we recommended that the college comply with state policy for property accounting and management and that the college complete implementation of its property accounting system. College personnel made progress in implementing a property accounting system during the past two audit periods. However, the college is still not in compliance with state policy for property accounting and management and the college has not completed implementation of its property accounting system.

We noted the following instances of noncompliance with Chapter 2-1700 of the Montana Operations Manual, which contains the state's property accounting policies:

1. WMC personnel do not perform an annual inventory of fixed assets/equipment. The college last performed a physical inventory of its fixed assets during spring 1985. State policy requires an annual inventory be taken when the fixed asset inventory system is periodic, rather than perpetual.

2. Not all property items at the college had inventory tags attached.

3. Not all property at WMC was recorded on the inventory system. An inventory of one of WMC's buildings was not completed. We noted two original C.M. Russell pen and ink drawings and a Paxson oil painting were not recorded on the inventory system.

4. Proper control of the state's Property Accountability and Management System (PAMS) inventory tags has not been maintained. During the initial tagging of equipment/fixed assets at WMC, a list of the PAMS tags used and the related item tagged was not created.

Our prior audit report recommended that adjustments be made to WMC's property accounting system. The college made the recommended adjustments to its property accounting system but did not make the adjustments on the state's accounting system.

College personnel should review and implement procedures to comply with state policy for property accounting and management. The college should also complete implementation of the college's property accounting and management system by taking a complete inventory of property and equipment, tagging the items and recording the items on its records and the state's accounting system.

College personnel stated the property accounting issues noted above resulted from lack of resources. They indicated the college used to commit one-half an FTE plus some student help to property accounting and control. After the half-time person left, the function was assigned to the college's accountant to work on when time permits. College officials stated it would require at least one-half an FTE, at an estimated cost of $9,740, to complete the initial inventory. Once the inventory is performed the college would have a perpetual system. The college could then update its inventory system every time it purchased or disposed of a fixed asset and the college could develop and implement a rotating cycle to perform a physical inventory.

RECOMMENDATION #7

We recommend the college:

A. Perform a complete physical inventory of fixed assets.

B. Comply with state policy for property accounting and management.

C. Complete implementation of its property accounting system.

STUDENT EMPLOYEE PAY RATES

Western Montana College employs approximately 270 students each semester. Examples of student positions and the related pay rate per hour are as follows:

Day Care Attendant	$3.35 - 3.55
Bookstore Clerk	$3.35
Typist - Clerk	$3.35
Food Service Worker	$3.35
Custodian	$3.35 - 3.45

During our testing we noticed that a certain group of students received $5.45 per hour in fiscal year 1986-87 and $5.74 per hour in fiscal year 1987-88. These students were awarded jobs to cover room and board costs. According to college officials, more than 95 percent of the "room and board" students perform custodial type work. The remaining "room and board" students perform various jobs such as those listed above.

The pay rate "room and board" students receive for custodial work is over $2 per hour more than the pay rate non "room and board" students receive for performing the same task. The method the college used to calculate the pay rate for the "room and board" students was to determine the cost of the room and board and divide this figure by the number of hours the student was allowed to work. The resulting figure was used as the hourly pay rate for the student employee.

The wage rate paid to "room and board" students is exempt from WMC's student job classification and wage rate procedures manual. According to college officials, WMC is committed to agreements with the recipients of the $5.74 pay rate. However, the college plans to develop other procedures to award room and board costs to students in the future.

RECOMMENDATION #8

We recommend the college pay student employees at comparable wage rates for similar work.

INTERNAL CONTROLS

Western Montana College transmits accounting transactions to the Statewide Budgeting and Accounting System (SBAS). During our audit we noted that a lack of segregation of duties exists regarding the input and transmission of certain types of transactions to SBAS. In some situations, one person may prepare the documents, input the information to the computer and transmit the transactions to SBAS. A separate, independent review of the information is not performed prior to transmission.

In other situations, the documents are prepared and independently reviewed prior to transmission, however, the review and authorization is not documented.

Adequate internal controls require separate review procedures to detect errors and prevent the submission of unauthorized transactions. Procedures should exist to document the review and approval of transactions and a method should be developed to indicate the person responsible for authorizing such transactions. This formal approval should be required before a transaction is processed.

Segregating the preparation and documenting the review and approval of all accounting entries can reduce the risk that incorrect or unauthorized transactions are processed.

RECOMMENDATION #9

We recommend the college develop and implement procedures to segregate duties and document review and approval of transactions recorded on SBAS.

AUDITOR'S REPORT

AND COLLEGE FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the amounts presented in the statements shown on pages 16 through 25.

STATE OF MONTANA

Office of the Legislative Auditor

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Operations and EDP Audit

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Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Western Montana College as of June 30, 1988, and the related Statements of Changes in Fund Balances and the Statements of Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. These financial statements are the responsibility of Western Montana College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Montana College as of June 30, 1988, and the changes in its fund balances and the current funds revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Full-Time Equivalent Students for the two fiscal years ended June 30, 1988, is presented as supplemental information and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our examination of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 23, 1988

WESTERN MONTANA COLLEGE
BALANCE SHEET
JUNE 30, 1988

	CURRENT FUNDS			PLANT FUNDS				
	Unrestricted	Restricted	LOAN FUNDS	Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment In Plant	AGENCY FUNDS
ASSETS:								
Cash	$ 164,644	$ 83,010	$ 1,297	$ 1,042		$ 33,801		$13,331
Due from Federal Government		15,075						
Due from Other Funds	17,185	4,206			$ 4,402			
Accounts Receivable	137,580	4,441	6,446	39,483				400
Allowance for Doubtful Accounts	(59,882)							
Inventories	153,805							
Prepaid Expenses	119,343	63						
Investments						140,170		
Student Loan Advances Receivable			4,112					
Inter-entity Loans Receivable			53,497	18,672	13,599			
Loans Receivable:								
Student Loans			459,647					
Allowance for Doubtful Accounts			(36,231)					
Land							$ 57,461	
Buildings							6,784,143	
Equipment & Intangible Assets							2,336,145	
Library Books							380,248	
Construction Work in Progress							17,343	
TOTAL ASSETS	$ 532,675	$106,795	$488,768	$ 59,197	$18,001	$173,971	$9,575,340	$13,731
LIABILITIES AND FUND BALANCE:								
Deposits	$ 7,480							
Deferred Revenue	70,682	$ 30,142						
Due to Other Funds			$ 1,263	$ 7,953				$ 2,809
Accounts Payable	451,112	73,700	368	1,105				591
Inter-entity Loans Payable	85,768							
Liability for Compensated Absences	345,162							
Bonds Payable							$ 957,991	
Installment Purchase Payable							329,447	
Property Held in Trust								10,331
Total Liabilities	960,204	103,842	1,631	9,058	-0-	-0-	1,287,438	13,731
Fund Balance (See footnote 4)	(427,529)	2,953	487,137	50,139	18,001	173,971	8,287,902	-0-
TOTAL LIABILITIES AND FUND BALANCES	$ 532,675	$106,795	$488,768	$ 59,197	$18,001	$173,971	$9,575,340	$13,731

The notes to the financial statements on pages 21 through 25 are an integral part of this statement.

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	CURRENT FUNDS			PLANT FUNDS			
	Unrestricted	Restricted	LOAN FUNDS	Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment In Plant
Revenues & Other Additions:							
Unrestricted Educational & General	$4,709,129				$29,930		
Auxiliary Enterprises	1,087,175						
Federal Grants/Contracts		$1,242,950					
State and Local Grants/Contracts		9,014					
Private Gifts/Grants/Contracts		155,636					
Interest and Recovery on Loans			$ 18,862				
Investment Income			1,527	$ 2,336	150	$ 13,685	
Student Fees				106,386			
Land Grant				213,311			
Expended for Plant Facilities							$ 414,815
Retirement of Indebtedness							140,192
Move Equity to Net Investment in Plant				4,103			
Total Revenues and Other Additions	5,796,304	1,407,600	20,389	326,136	30,080	13,685	555,007
Expenditures & Other Deductions:							
Educational and General	4,796,729	1,391,149					
Auxiliary Enterprises	1,349,498	16,451					
Loan Cancellations			17,053				
Administrative & Operating			19,055	25,378	13,490	88	
Retirement of Indebtedness						70,561	
Interest on Indebtedness						37,574	
Transfers to Department of Administration				78,446			
Total Expenditures & Other Deductions	6,146,227	1,407,600	36,108	103,824	13,490	108,223	-0-
Transfers Among Funds - Additions (Deductions):							
Nonmandatory	117,910			(117,910)			
Mandatory	(7,157)			(88,619)		95,776	
Total Transfers	110,753	-0-	-0-	(206,529)	-0-	95,776	-0-
Net Increase (Decrease) for the Year	(239,170)	-0-	(15,719)	15,783	16,590	1,238	555,007
Fund Balance at the Beginning of the Year	(233,402)	6,885	505,273	34,652	-0-	172,733	7,732,895
Prior Year Adjustment & Other	45,043	(3,932)	(2,417)	(296)	1,411		
Fund Balance (Deficit) at the End of Year	$(427,529)	$ 2,953	$487,137	$ 50,139	$18,001	$173,971	$8,287,902

The notes to the financial statements on pages 21 through 25 are an integral part of this statement.

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS REVENUE, EXPENDITURES, AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	CURRENT FUNDS		
	Unrestricted	Restricted	Total
Revenues:			
Educational and General			
Tuition and Fees	$ 996,305		$ 996,305
State Appropriation	3,496,134		3,496,134
Federal Grants and Contracts	22,591	$1,242,950	1,265,541
State and Local Grants and Contracts	9,478	9,014	18,492
Private Gifts, Grants and Contracts	50	155,636	155,686
Sales and Services	184,571		184,571
Total Educational and General	4,709,129	1,407,600	6,116,729
Auxiliary Enterprises	1,087,175		1,087,175
Total Revenues	5,796,304	1,407,600	7,203,904
Expenditures and Mandatory Transfers:			
Educational and General			
Instruction	2,202,686	433,189	2,635,875
Public Service	24,352		24,352
Academic Support	251,816	28,670	280,486
Student Services	796,631	81,387	878,018
Institutional Support	665,992	123,170	789,162
Operation of Plant	734,535	63,968	798,503
Student Aid	81,524	660,765	742,289
Bad Debts	24,136		24,136
Compensated Absences	15,057		15,057
Total Educational and General	4,796,729	1,391,149	6,187,878
Auxiliary Enterprises:			
Expenditures	1,349,498	16,451	1,365,949
Mandatory Transfers for Principal and Interest	7,157		7,157
Total Auxiliary Enterprises	1,356,655	16,451	1,373,106
Total Expenditures and Mandatory Transfers	6,153,384	1,407,600	7,560,984
Nonmandatory Transfers	117,910		117,910
NET INCREASE (DECREASE) IN FUND BALANCE	$ (239,170)	$ -0-	$ (239,170)

The notes to the financial statements on pages 21 through 25 are an integral part of this statement.

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	CURRENT FUNDS			PLANT FUNDS			
	Unrestricted	Restricted	LOAN FUNDS	Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant
Revenues & Other Additions:							
Unrestricted Educational & General	$4,428,455						
Auxiliary Enterprises	1,285,817						
Federal Grants/Contracts		$1,421,068					
State and Local Grants/Contracts		5,352					
Private Gifts/Grants/Contracts		78,823					
Interest and Recovery on Loans			$ 29,761				
Investment Income			307	$ 3,054		$13,691	
Student Fees				117,693			
Land Grant				232,488			
Expended for Plant Facilities							$ 541,013
Retirement of Indebtedness							112,331
Move Equity to Net Investment in Plant				14,897			
Total Revenues and Other Additions	5,714,272	1,505,243	30,068	368,132	$ -0-	13,691	653,344
Expenditures & Other Deductions:							
Educational and General	4,478,062	1,464,120					
Auxiliary Enterprises	1,378,504	41,123					
Loan Cancellations			14,374				
Administrative & Operating			21,108	38,534		173	
Retirement of Indebtedness						69,641	
Interest on Indebtedness						40,509	
Transfers to Department of Administration				138,569			
Total Expenditures & Other Deductions	5,856,566	1,505,243	35,482	177,103	-0-	110,323	-0-
Transfers Among Funds - Additions (Deductions):							
Nonmandatory	208,695			(208,695)		11,536	
Mandatory	(7,444)			(87,965)		83,942	
Total Transfers	201,251	-0-	-0-	(296,660)	-0-	95,478	-0-
Net Increase (Decrease) for the Year	58,957		(5,414)	(105,631)		(1,154)	653,344
Fund Balance at the Beginning of the Year	(290,728)	30,720	510,687	136,589		173,887	7,098,655
Prior Year Adjustment & Other	(1,631)	(23,835)	-0-	3,694			(19,104)
Fund Balance (Deficit) at the End of Year	$ (233,402)	$ 6,885	$505,273	$ 34,652	$ -0-	$172,733	$7,732,895

The notes to the financial statements on pages 21 through 25 are an integral part of this statement.

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS REVENUE, EXPENDITURES
AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	CURRENT FUNDS		
	Unrestricted	Restricted	Total
Revenues:			
Educational and General			
Tuition and Fees	$1,089,183		$1,089,183
State Appropriation	3,073,239		3,073,239
Federal Grants and Contracts	25,108	$1,421,068	1,446,176
State and Local Grants and Contracts	8,068	5,352	13,420
Private Gifts, Grants and Contracts	100	78,823	78,923
Sales and Services	232,757		232,757
Total Educational and General	4,428,455	1,505,243	5,933,698
Auxiliary Enterprises	1,285,817		1,285,817
Total Revenues	5,714,272	1,505,243	7,219,515
Expenditures and Mandatory Transfers:			
Educational and General			
Instruction	1,908,751	319,407	2,228,158
Public Service	20,115		20,115
Academic Support	274,814	24,096	298,910
Student Services	799,896	75,006	874,902
Institutional Support	636,731	280,775	917,506
Operation of Plant	699,254	63,498	762,752
Student Aid	99,146	701,338	800,484
Compensated Absences	39,355		39,355
Total Educational and General	4,478,062	1,464,120	5,942,182
Auxiliary Enterprises:			
Expenditures	1,378,504	41,123	1,419,627
Mandatory Transfers for			
Principal and Interest	7,444		7,444
Total Auxiliary Enterprises	1,385,948	41,123	1,427,071
Total Expenditures and Mandatory Transfers	5,864,010	1,505,243	7,369,253
Nonmandatory Transfers	208,695		208,695
NET INCREASE (DECREASE) IN FUND BALANCE	$ 58,957	$ -0-	$ 58,957

The notes to the financial statements on pages 21 through 25 are an integral part of this statement.

WESTERN MONTANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1988

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis

The financial statements of Western Montana College have been prepared on the accrual basis except for depreciation accounting. The statement of current funds revenue, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenditures.

Fund Accounting

The accompanying financial statements are prepared in accordance with the principles of "fund accounting" wherein resources are classified by the limitations and restrictions placed upon their use. These separate funds are then combined according to their common characteristics into fund groups (each an accounting entity complete with a self-balancing set of accounts) and reflect by fund groups in the accompanying financial statements.

Descriptions of the common characteristics of the funds in the various fund groups are as follows:

CURRENT FUNDS - the current funds group includes economic resources expendable in performing the primary objectives of the institutions, i.e., instruction and public service. The current funds group has two basic distinct sub-groups. Unrestricted funds which have no external expenditure restrictions, and restricted funds which have external expenditure restrictions.

LOAN FUNDS - this group of resources is available to aid in financial qualifying students' education. Private as well as College resources provide some loans funds; however, the federal government contributes the large majority.

PLANT FUNDS - plant funds are separated into four distinct sub-groups with self-balancing accounts:

Renewal and Replacement Funds - utilized for long-term institutional asset maintenance.

Unexpended Plant - utilized for acquisition of long-term institutional assets.

Retirement of Indebtedness Funds - utilized for debt service charges and retirement of indebtedness on long-term institutional assets.

Investment in Plant - denotes the cost of long-term institutional assets and associated liabilities.

AGENCY FUNDS - the agency funds group is used to segregate assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

Appropriations

Appropriations in the Current Unrestricted Fund are made by the Legislature for operating purposes of Western Montana College. Expenditures against these appropriations are funded by corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year-end.

NOTE 2 - INVESTMENTS

All investments are recorded at cost. Investment income is generally recorded when earned. The investments of Western Montana College consist primarily of amounts invested through the bond trustee consisting of United States Treasury Bills and Money Market Funds. Investments at June 30, 1988, are as follows:

	Cost	Market
Plant Funds:		
Retirement of Indebtedness:		
Money Market	$ 10,830.00	$ 10,830.00
U.S. Treasury	129,340.29	129,340.29
Total:	$140,170.29	$140,170.29

NOTE 3 - INVENTORIES

Inventories included are merchandise from the bookstore, vending, and snack bar and supplies from the business office, physical plant, and food service. All recorded inventories are stated at cost using the first-in/first-out method.

NOTE 4 - VACATION PAY AND SICK PAY

Employees accumulate unused vacation and unused sick leave. Employees can accumulate and carry over a maximum of two years vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. Upon termination, unused sick leave earned since July 1, 1971, is

purchased from the employee at 25 percent value. The cash value of accumulated leave at June 30, 1988, was $345,162. The liability for vacation and sick leave is recorded in the period in which the leave is earned. This results in a negative fund balance because the revenue which would be used to pay the liability is not collected until future periods.

NOTE 5 - UNEARNED INCOME

Summer school revenues and related expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year.

NOTE 6 - BONDS AND INSTALLMENT PURCHASE PAYABLE

At June 30, 1988, the college has a total of $2,532,438 in outstanding bonds and installments payable, including $1,245,000 of General Obligation Bonds recorded on Department of Administration's accounting records. The bonds were issued for construction of various college facilities and are summarized as follows:

"1966 Indenture" to build a three-story dormitory. There are $593,000 of bonds outstanding at June 30, 1988. They are due in varying annual installments (on October 1st) through 2006. The annual debt service for the year ended June 30, 1988, was $54,070. The maximum annual debt service requirement of $88,415 took place in the year ended June 30, 1985. The bonds bear interest from 2-3/4 percent to 3-1/2 percent per annum with semi-annual payment dates (April 1st and October 1st). The indenture requires that net annual earnings of the college's housing and dining system and fees pledged under the indenture be sufficient to make deposits to sinking fund trust accounts in order that these accounts may meet current debt requirements and maintain a fixed reserve. The earning requirement was not met as of June 30, 1988. The net revenues of the college's housing and dining system, student union fees and student building fees are pledged to this indenture as long as required balances in trust accounts are maintained.

"1967 Indenture" to build a physical education building and install necessary equipment. There are $295,000 of bonds outstanding at June 30, 1988. They are due in installments (on July 1st) through 1997. The annual debt service for the year ended June 30, 1988, was $35,345. The bonds bear interest from 3 percent to 5-1/4 percent per annum within semi-annual payment dates (January 1st and July 1st). Annual earnings from fees and income pledged to this indenture must be sufficient to maintain a required balance in the sinking fund trust account. The earnings requirement was met as of June 30, 1988. The necessary amount of Physical Education Building fees, land grant income and usage charges are pledged to the indenture to maintain required balances in the trust account.

"1985 Series F Loan" to finance the cost of acquisition and installation of computer hardware, computer software, and various other types of computer related equipment. There is $69,991 in principal payments outstanding on the loan as of June 30, 1988. They are due in semi-annual installments (June 15th and December 15) through 1992. The annual debt service for the year ended

June 30, 1988 was $18,719.51. The loan bears interest at 7.75 percent and is funded through student computer fees.

"1985 Series A General Obligation Bond" to fiance the costs of construction and equipping a swimming pool addition to the physical eduction facility. The bond proceeds amounted to $1,400,000 on July 24, 1985, with an average of 7.677 percent interest on the coupons. Principal and interest paid in 1988 was $156,380. Initial payment was due August 25, 1985, and continues on the 25th of each month thereafter until bond maturity on August 1, 2000. The maximum annual debt service requirement of $172,750.09 will occur in fiscal year 1998-99. While the bonds remain the general obligation of the State of Montana, the Board of Regents have entered into an agreement which obligates Western Montana College to pay the State Treasurer an amount sufficient to pay the principal and interest due on the bonds. Revenues derived from land grant income, building fees, and usage charges are pledged to pay the obligation. There remains $1,245,000 in principal payments outstanding on the bonds as of June 30, 1988. As of June 30, 1988, the college had not yet entered into a construction contract. The swimming pool project was discontinued as of 6/30/88 due to insufficient projected revenues to meet the bond obligation. Western Montana College is currently requesting authorization to use approximately one-half of the bond proceeds to remodel campus buildings; specifically, the Student Union Building and a new roof on the Physical Education Building. The remaining one-half of the G.O. Bond is proposed to be available to pay current principal and interest payments. The 1967 Indenture Land Grant Interest and Income moneys will make the balance of the G.O. Bond principal and interest payments.

The college entered into various installment purchase contracts to purchase major equipment. The total principal amount outstanding at June 30, 1988, is $329,447.00. The major portion of this debt is attributed to a telecommunications system purchased on July 1, 1984. According to the terms of the contract the college purchased $449,132.68 of telecommunications equipment due in monthly installments for a period of ten years with interest accruing at a rate of 11.5 percent per year. The scheduled monthly payments of principal and interest amount to $7,262.54. The principal amount outstanding on the contract as of June 30, 1988, is $309,924.54.

The college records interest expense on these bonds when paid. The recognition of accrued interest would not have a material effect on the college's over-all financial position.

The annual payments for all bond requirements are as follows:

	1966 Indenture	1967 Indenture	1985 Loan	1985 G.O. Bond
1989	$ 35,000.00	$ 25,000.00	$13,552.80	$ 69,166.63
1990	35,000.00	25,000.00	14,623.49	70,000.00
1991-1997	246,000.00	245,000.00	41,814.48	670,416.55
1998-2006	277,000.00			435,416.82
	$593,000.00	$295,000.00	$69,990.77	$1,245,000.00

NOTE 7 - INVESTMENT IN PLANT

Physical plant, equipment, and library books are stated at cost or historically based appraisal values. Depreciation on physical plant and equipment is not recorded. Equipment costing less than $200 is excluded from the financial statements.

NOTE 8 - RETIREMENT PROGRAMS

The Montana University System offers new members of faculty and professional staff a choice of retirement systems. Academic and professional employees with contracts choose either the Montana Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP), which is available through the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The University System makes a similar employer contribution to the selected plan. All other employees are provided retirement benefits through the Montana Public Employee's Retirement System (PERS). Membership in one of the three available plans is compulsory. The PERS rate is 6.417 percent and the TRS or ORP rate is 7.428 percent.

The TRS and PERS plans are operated by the state. Both plans are defined benefit retirement plans. Upon retirement, the monthly annuity is calculated by using a formula that includes average final compensation and years of creditable service as variables. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans was determined to be actuarially sound as reported by the system's actuary at June 30, 1987, for the Teachers' Retirement System and at June 30, 1988 for the Public Employees' Retirement System.

The Optional Retirement Program was created by an act of the Legislature in 1987 and is a defined contribution retirement plan. Under a defined contribution plan, the regular contributions to the plan are determined in advance as a percentage of employee salary. The benefits actually received at retirement will depend on the amount of contribution, the amount of investment gains and losses, the employee's life expectancy at retirement, and the retirement income option selected. The Board of Regents selected TIAA-CREF as the organization to provide annuities under ORP.

The college's share of the cost of these plans was $227,217 for the year ended June 30, 1988.

WESTERN MONTANA COLLEGE
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

Semester	Year	Undergraduate FTEs Reported[1]	Graduate FTEs Reported[2]	Total FTEs Reported
Summer	1986	146	50	196
Autumn	1986	860	8	868
Spring	1987	779	13	792
Summer	1987	111	56	167
Autumn	1987	739	25	764
Spring	1988	719	12	731

[1] Undergraduate quarterly credit hours divided by 15.

[2] Graduate quarterly credit hours divided by 12.

COLLEGE RESPONSE

University of Montana

Office of the President • Missoula, Montana 59812-1291 • (406) 243-2311

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Montana Legislative Auditor

March 20, 1989

Mr. Jim Manning
Audit Supervisor
State of Montana
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Mr. Manning:

Enclosed is the response of Western Montana College of the University of Montana to the recent report and recommendations of the Office of the Legislative Auditor. The response has my concurrence as well as that of Dr. Michael Easton, the Provost of the College.

Please contact me or Dr. Easton should you have any questions.

Sincerely,

James V. Koch
President

JVK/cb
Enclosure

Equal Opportunity in Education and Employment

RESPONSE OF WESTERN MONTANA COLLEGE
OF THE UNIVERSITY OF MONTANA TO THE REPORT OF THE
OFFICE OF THE LEGISLATIVE AUDITOR

RECOMMENDATION #1

We recommend the college:

A. Enter into a written contract with the Foundation setting forth rights and duties of each party.

A. Concur.

Western has obtained a copy of the contract used by the University of Montana and will use it as a guideline in drafting a contract with the Foundation.

B. Account for donations to the college in the appropriate state funds.

B. Concur.

Western will withdraw the $3000 from the Foundation and deposit it in the Endowment account.

RECOMMENDATION #2

We recommend the college continue to address the operating fund deficit for the 1966 Revenue Bond.

Concur.

Because of a temporary enrollment decline in FY 1988, our progress in bringing the operating account off of a deficit was delayed. We now are back to reasonable occupancy levels in the residence halls and expect to have an operating surplus for this year. Western will seek Regents' authority for transfers from the 1967 Revenue Bond account to the 1966 Revenue Bond. Operating surpluses and account transfers should bring the operating account into positive balance next fiscal year.

RECOMMENDATION #3

We recommend the college:

A. Develop procedures to insure the contingent revolving fund stays within the authorized limit.

A. Concur.

Procedures will be developed by June 30, 1989, whereby only expenditure reimbursements will be deposited into the contingent revolving fund. This will keep the fund within the authorized limit.

B. Remit interest earned on the contingent revolving fund to the General Fund.

B. Concur.

The net interest after bank charges will be remitted to the General Fund on a monthly basis as part of the reconciliation procedure.

C. Record all contingent revolving fund interest earnings as revenue and all service charges as expenditures on the state's accounting system.

C. Concur.

D. Use the contingent revolving fund only for authorized purposes.

D. Concur.

The college will submit a request to the Department of Administration - Accounting Division to obtain additional authorization for change back to students from receipts which exceed our pre-established cash change limits. The college will respectively request a periodic increase to the authorized limit to handle beginning of the semester fluctuation. The college will no longer use the revolving fund as a clearing account for funds determined not to be state funds. A separate clearing account will be set up on SBAS in accordance with state accounting policy.

RECOMMENDATION #4

We recommend the college develop personal service contracts that contain the elements required by state policy.

Concur.

Western has obtained copies of the personal services contracts used by the University of Montana. These contracts meet the requirements of state policy. We will use similar contracts after approval of our legal counsel.

RECOMMENDATION #5

We recommend the college:

A. Obtain signed documentation from student applicants that previous financial aid obligations have been met.

A. Concur.

When students fill out the Financial Aid Form, they certify whether they owe a refund or are in default on a loan. We also have this information on our award letters.

B. Obtain and include all required documents in the financial aid files.

B. Concur.

Western will obtain a financial aid transcript for the file in question. We normally request transcripts unless we are not aware of a previously attended school.

RECOMMENDATION #6

A. Establish procedures to determine the collectibility of loans and accounts receivable.

A. Concur.

The college acknowledges that the present accounts receivable system is in need of upgraded controls. Purchasing a student records system has been in the works over the past couple of years. The college has recently purchased a student records system in conjunction with University of Montana. The student records system will provide ongoing controls and system integration whereby a more efficient system of recording and calculating of receivables will be generated, as well as a proper aging of accounts to allow management to better determine the collectibility of the various accounts receivable. This system is expected to be implemented by fall of 1989. The college in

the meantime will manually analyze the present accounts receivable, determine which accounts need to be written off and write off those accounts in accordance with state accounting policies and procedures. This determination and write off will be recorded by FY End 1989.

B. Periodically adjust the allowance for uncollectible accounts on its accounting records.

B. Concur.

The college will periodically adjust the allowance for uncollectible amounts on SBAS at FY End beginning with FY 1989. The college has partially booked an allowance for uncollectible accounts on SBAS but only up to the amount that could be funded. The college will book the proper amount as FY End 1989; however, the amount may result in recording a current fund deficit balance.

C. Remove all accounts receivable amounts determined to be uncollectible from accounting records.

C. Concur.

The college will remove all accounts receivable amounts determined to be uncollectible by FY End 1989. The accounts will be removed in accordance with State Accounting Policy.

RECOMMENDATION #7

A. Perform a complete physical inventory of fixed assets.

A. Concur.

The college will complete a physical inventory over the summer of 1989 with completion to take place by fall of 1989. Time and funding constraints will not permit an earlier target date.

B. Comply with state policy for property accounting and management.

B. Concur.

All items inventoried will be recorded on PAMS (Property Accounting Management System) in accordance with college and state policy regarding fixed assets. SBAS will be adjusted accordingly to agree with the amounts determined to be fixed assets on PAMS.

This will be completed by FY End 1990 due to complexities involved with cost amount determination.

C. Complete implementation of the colleges property accounting system.

C. Concur.

As stated above, the college will make every attempt to have the complete property accounting system implemented by FY End 1990.

RECOMMENDATION #8

We recommend the college pay student employees at comparable wage rates for similar work.

Concur.

Currently the Frontier Conference Constitution and By-Laws says: "ARTICLE VI. Section 2. Limitation of individual Athletic Grants-In-Aid. Athletic aid granted by the institution shall be limited both in amount and in time to the value of tuition and fees and the opportunity to work for board and room at the rate for double occupancy in the dormitory as stated in the official catalog during his academic undergraduate years." The athletic "room and board" pay scales have been determined by dividing the costs of a semester's room and board by fifteen hours per week. It has been Western's policy that athletes cannot be expected to work more than fifteen hours per week and participate in a sport and also maintain required academic standards. At current room and board rates, an athlete would have to work twenty-five hours per week at minimum wage. This means that if an athlete practices the normal three hours per day and works five hours per day, he or she would have put in eight hours without having attended one class or done any studying. While we have been paying our athletes more than other students, we have been getting WORK in return for this. The NAIA (of which the Frontier Conference is a part) allows full-ride scholarships which would pay for room and board. If the Frontier Conference allowed full-ride scholarships, we would be in compliance with this recommendation, but would receive no work in return.

These athletes work all over campus in jobs that need to be done. Therefore, we would give athletes a full ride and also have to hire someone else to do their work.

The Provost will work with the Frontier Conference to establish intercollegiate financial aid policies that will neither disadvantage Western competitively nor cause it to pay intercollegiate athletes wage rates that are not comparable to those paid other students.

RECOMMENDATION #9

We recommend the college develop and implement procedures to segregate duties and document review and approval of transactions recorded on SBAS.

Concur.

The college has developed and implemented procedures to segregate duties and document review and approval of transactions recorded on SBAS for the majority of transactions. In the course of the audit it was brought to the administration's attention that transactions prepared by the college's accountant were not reviewed and authorized prior to transmission. The college will immediately implement procedures whereby all transactions will be reviewed and formally authorized by persons separate from the preparations function as determined appropriate by college administration. The controller and/or director of fiscal affairs will approve transactions prepared by the accountant prior to transmission and recording on SBAS.